

Message Text

CONFIDENTIAL

PAGE 01 CARACA 11830 021314Z

51 13

ACTION ARA-06

INFO OCT-01 SS-14 ISO-00 EB-03 INR-05 L-01 SP-02 RSC-01

/033 W

----- 049625

R 292003Z NOV 74

FM AMEMBASSY CARACAS

TO SECSTATE WASHDC 6777

C O N F I D E N T I A L CARACAS 11830

LIMDIS

C O R R E C T E D C O P Y (TEXT-PARAGRAPH 3)

EO 11652 GDS

TAGS: EMIN VE

SUBJ: US STEEL SETTLEMENT WITH VENEZUELA ON NATIONALIZATION
OF IRON MINE CONCESSIONS

1. COHLMeyer AND RYAN OF US STEEL CALLED ON ME THIS MORNING TO
REVEAL THAT THEY ARE IN THE LAST QUARTER MILE OF THEIR RACE AGAINST
THE GOVT AND THAT PROSPECTS FOR AN AMICABLE AND EQUITABLE
SOLUTION OF THE IRON ORE PROBLEM ARE BRIGHT.

2. IN ESSENCE, US STEEL HAS ACHIEVED TWO OBJECTIVES OF IMMENSE
IMPORTANCE. THE FIRST RELATES TO TONNAGE OF IRON ORE. AN AGREE-
MENT HAS BEEN WORKED OUT WHEREBY FOR THE NEXT THREE YEARS,
BEGINNING JAN 1, 1975, US STEEL WILL TAKE 12 MILLION TONS
OF IRON ORE. AFTER THE FIRST THREE YEARS, THE ANNUAL TONNAGE RATE
DECLINES FOR TWO YEARS TO 10.5 MILLION TONS AND FOR THE NEXT TWO
YEARS TO 8.5 MILLION TONS. US STEEL HAD ASKED FOR HIGHER
ANNUAL RATES BUT WILL IN FACT RECEIVE 87.5 PERCENT OF WHAT IT
WANTED, AND THIS FIGURE IS HIGHLY SATISFACTORY TO PITTSBURGH.

2. ON PRICE, NO FINAL AGREEMENT HAS YET BEEN REACHED, BUT THE
OUTLINE OF A SETTLEMENT IS CLEARLY DISCERNIBLE. THE VENEZUELANS
WANT THE PRESENT PRICE OF 34.5 CENTS PER "IRON UNIT" AS A FLOOR
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 CARACA 11830 021314Z

WHEREAS US STEEL HELD OUT FOR THE LAKE ERIE PRICE OF 30CENTS

PER IRON UNIT. THE EVENTUAL AGREEMENT WILL BE TO SETTLE ON THE FLOOR OF 34.5 CENTS WITH THE UNDERSTANDING THAT WHEN THE ERIE PRICE REACHES THAT LEVEL AND GOES HIGHER, THE VENEZUELAN PRICE WILL ESCALATE FOLLOWING THE ERIE LEVEL.

3. PROBABLY THE GREATEST TRIUMPH NEGOTIATED BY COHLMeyer AND RYAN WAS IN SETTLEMENT OF THE PURCHASE PRICE OF THEIR HIGHLY EXPENSIVE BRIQUETTING PLANT. THE US STEEL NEGOTIATORS ARE ON THE POINT OF REACHING AN AGREEMENT WHEREBY THE GOV IN THE CORPORATE PERSON OF THE CORPORACION VENEZOLANA DE GUAYANA WILL TAKE OVER 51 PERCENT OWNERSHIP OF THE BRIQUETTING PLANT AND WILL PAY US STEEL ON THE BASIS OF BOOK VALUE. SINCE US STEEL HAS SPENT PERHAPS TWICE MORE THAN ORIGINALLY BUDGETED FOR THE BRIQUETTING PLANT (TOTAL COST \$100 MILLION), IT IS IN EFFECT BEING BAILED OUT BY VENEZUELA. HOWEVER, SINCE THE PLANT IS NOW FULLY OPERABLE AND CAN SELL ITS PRODUCT ON THE WORLD MARKET FOR \$90 A TON, AS CONTRASTED WITH \$24.50 A TON IN FORCED SALES TO SIDOR, THE PROSPECTS ARE FAIRLY GOOD THAT IN FUTURE, US STEEL WITH 49 PERCENT OWNERSHIP, WILL AT LAST BEGIN TO MAKE MONEY AND WILL BE REIMBURSED IN FULL FOR ITS CAPITAL INVESTMENT.

4. IN CONTRAST TO THESE TWO SIGNIFICANT ACHIEVEMENTS, THE MINOR COMPLAINTS OF COHLMeyer AND COMPANY THAT THEY WILL NOT BE PAID A SUFFICIENTLY REMUNERATIVE MANAGEMENT FEE NEXT YEAR (\$5 MILLION AS CONTRASTED WITH US STEEL'S ASKING FIGURE OF \$24 MILLION) SEEM FAIRLY MINOR.

5. ON THE QUESTION OF REIMBURSEMENT FOR ORINOCO MINING COMPANY'S BOOK VALUE INVESTMENT, THE PRESENT AGREEMENT CALLS FOR PAYMENT BY VENEZUELA OF 365 MILLION BOLIVARES OVER A PERIOD OF TEN YEARS IN THE FORM OF NON-TRANSFERABLE BONDS BEARING INTEREST AT THE CURRENT PRIME RATES. THE VENEZUELAN GOVT DOES, HOWEVER, HAVE THE OPTION OF REDEEMING THESE BONDS IN CASH AT ANY TIME AND THUS SAVING ON INTEREST ACCOUNT. THERE STILL REMAINS IN DISPUTE US STEEL'S DEMAND FOR AN ADDITIONAL OVERALL REIMBURSEMENT OF 35 MILLION BOLIVARES, MAKING THE TOTAL SUM TO BE EVENTUALLY PAID OFF BY VENEZUELA 400 MILLION BOLIVARES.

6. ALTHOUGH PRESIDENT PEREZ'S SPEECH AND THE TEXT OF THE IMPLEMENTING DECREE WILL PROBABLY RING THE CHANGES ON NATIONALISTIC

CONFIDENTIAL

PAGE 03 CARACA 11830 021314Z

SENTIMENTS AND BE PORTRAYED AS AN OUTSTANDING VICTORY FOR THE AD PARTY AND ITS PRESIDENT, IN ESSENCE US STEEL HAS MADE A VERY GOOD BARGAIN IN TERMS OF TONNAGE, PRICE, AND ABOVE ALL THE UNLOADING OF ITS FORMER WHITE ELEPHANT, THE BRIQUETTING PLANT. ON THE WHOLE, THEREFORE, IF THE ARRANGEMENTS OUTLINED BY COHLMeyer AND RYAN ARE RATIFIED, A MAJOR POTENTIAL PROBLEM IN US-VENEZUELAN RELATIONS WILL HAVE BEEN SATISFACTORILY SETTLED.

MCCLINTOCK

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: NATIONALIZATION, IRON, NEGOTIATIONS
Control Number: n/a
Copy: SINGLE
Draft Date: 29 NOV 1974
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: MorefiRH
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974CARACA11830
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D740347-0799
From: CARACAS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t1974114/aaaaacvp.tel
Line Count: 116
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION ARA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: LIMDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: LIMDIS
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: MorefiRH
Review Comment: n/a
Review Content Flags:
Review Date: 23 SEP 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <23 SEP 2002 by kelleyw0>; APPROVED <26 DEC 2002 by MorefiRH>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: US STEEL SETTLEMENT WITH VENEZUELA ON NATIONALIZATION OF IRON MINE CONCESSIONS
TAGS: EMIN, EINV, VE, US, U S STEEL, ORINOCO MINING COMPANY
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005